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Before the House Committee on Government Reform  
Subcommittee on Regulatory Affairs

“Is the Federal Government Doing all it can  
To Stem the Tide of Illegal Immigration?”

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The President has proposed a comprehensive approach to immigration reform that addresses the need to secure our borders, enforce worksite employment practices, and address the economic issues of immigration. This approach calls for the creation of a true temporary worker program that allows individuals to achieve legal status by paying their taxes, learning English and gaining employment in our society.

Thank you for inviting me here today to talk about Wage Reporting, the Earnings Suspense File (ESF), and the Non Work Alien File.

**The Wage Reporting Process**

Our role in the wage reporting process is to ensure that all workers receive credit for the work for which they and their employers paid Social Security taxes.

Employers report wages to the Social Security Administration (SSA) on Forms W-2 (Wage and Tax Statement). SSA processes the Form W-2 data for tax purposes for the Internal Revenue Service (IRS). Self-employed individuals report information on self-employment income to IRS on Schedule SE. IRS then sends this self-employment information to SSA, which uses the SSN to record employees' earnings.

Accurate earnings information is vitally important to our Agency's administration of the Social Security program because a worker's earnings record is the basis for computing retirement, survivors and disability benefits. If a worker's earnings are not properly recorded, he or she may not qualify for Social Security benefits or the benefit amount payable may be wrong.

Each year, SSA processes approximately 235 million W-2s from 6.6 million employers that are sent to the SSA either electronically, or on paper. Approximately 152 million wage earners work in jobs covered by Social Security, which means that many worked in more than one job during a year. While some employers continue to send us their reports on paper, we encourage electronic filing and work to educate employers on the advantages of this method. We expect the use of electronic filing to grow as technology improves. In fact, in FY 2005, 66 percent of W-2s were filed electronically, up from less than 10 percent in 1999. We believe the increase in electronic filing will reduce errors over time.

SSA also offers a suite of services called Business Services Online (BSO). BSO offers Internet services for businesses and employers who exchange information with Social Security. Available services for registered users include the ability to report W-2s via the internet.

As you know, SSA mails Social Security Statements to workers over age 25 each year (approximately 144 million in 2005). The Statement is a concise, easy-to-read personal record of the earnings on which the worker has paid Social Security taxes during his or her working years and a summary of the estimated benefits the individual and his/her family may receive as a result of those earnings. We encourage workers to review the Statement to ensure that the information in SSA's records is correct and to contact SSA to make any corrections.

Later in life, when a person files for benefits, an SSA employee reviews the earnings record with the worker and assists the worker to establish any earnings that are not shown or are not correctly posted. However, since it may be difficult for the worker to accurately recall past earnings or to obtain evidence of them, SSA strives to maintain accurate records at the time the wages are reported.

### SSA's SSN Verification Processes

SSN verification is key to ensuring that wage reports are properly matched to the right SSN. Over the years, we have worked to offer employers alternative methods to verify SSNs. One of those methods is the Employee Verification Service (EVS). EVS is a free, convenient

way for employers to verify employee SSNs. It provides employers with several options depending on the number of SSNs to be verified. For up to five SSNs, employers can call SSA's toll-free number for employers (1-800-772-6270) weekdays from 7:00 a.m. to 7:00 p.m. Eastern Standard Time. Employers may also use this number to get answers to any questions they may have about EVS or other issues relating to employer reports. In FY 2005, SSA responded to nearly 1.5 million calls from employers.

Employers also have the option to submit a paper listing to the local Social Security office to verify up to 50 names and SSNs. In addition, employers may use a simple registration process to verify requests of more than 50 names and SSNs or for any number of requests submitted on magnetic media. Currently, almost 17,000 employers are registered for this verification service.

To further increase the ease and convenience of verifying employee SSNs, we developed the Social Security Number Verification Service (SSNVS). After obtaining a pin and password in a simple registration process, employers can use the internet to get immediate verification of the accuracy of employees' names and SSNs. This service was expanded to all employers in June 2005.

Commissioner Barnhart announced the nationwide rollout last year at the SSA- sponsored National Payroll Reporting Forum and we

continue to promote SSNVS. For example, an article on SSNVS appeared in the SSA/IRS Reporter that is sent to over 6.6 million employers. It was also featured in the SSA wage reporting email newsletter, W2News. We have also highlighted SSNVS in our many speaking engagements before the employer community. There is a special section on SSA's website for employers that highlights and explains the use of SSNVS. Our employer web site, which includes SSNVS access, has achieved a high satisfaction rating. Through SSNVS, we processed over 17 million verifications for 21,000 employers in the first six months of 2006.

### Basic Pilot

In addition to EVS and SSNVS, employers may participate in the Basic Pilot program, an ongoing voluntary program in which SSA supports the Department of Homeland Security (DHS) in assisting employers to confirm employment eligibility for newly hired employees. Participating employers register with DHS to use this automated system to verify an employee's SSN and work authorization status. The information the employer submits to DHS is sent to SSA to verify that the Social Security number, name, and date of birth submitted match information in SSA records. SSA will also confirm United States citizenship, thereby confirming work authorization; DHS confirms current work authorization for non-citizens. DHS will notify the employer of the employee's current work authorization status and whether the name and SSN match SSA's

records. In December 2004 the Basic Pilot was expanded. It is now available to any employer in all 50 states who wishes to take advantage of this service. As of July 2006, DHS and SSA have signed agreements with over 10,000 employers, representing about 36,000 employer sites. For FY 2005, SSA received approximately 100,000 Basic Pilot queries each month. So far, for FY 2006, SSA is receiving an average of 150,000 Basic Pilot requests a month.

In 2005, through the EVS, SSNVS, and Basic Pilot programs, we estimate we provided a total of 67 million employer verifications, up from 62 million in 2004.

### **The Earnings Suspense File (ESF)**

The ESF is an electronic holding file for wage items reported on Forms W-2 that cannot be matched to the earnings records of individual workers. A mismatch occurs when SSA cannot match the name and SSN on a W-2 to information in SSA's records. If SSA later resolves the mismatch, we can remove the item from the suspense file and credit the wages to that person's record.

Since the beginning of the program in 1937 and through Tax Year (TY) 2003, the most recent year for which data is available, the suspense file has grown and now contains about 255 million W-2s. While the suspense file represents an accounting of unassociated wage items, the taxes on these wages have been paid into the trust funds. In TY 2003, \$7.2 billion

in payroll taxes were credited to the Trust Funds based on wage items placed in the suspense file. This represented approximately 1.3 percent of total payroll taxes credited to the Trust Funds.

In order for wages to be credited to the correct worker, the worker's name and SSN on the W-2 must match the name and SSN recorded on the master record of SSNs assigned, the "Numident" file. As discussed earlier, we receive about 235 million W-2 reports annually, representing reports from 6.6 million employers that total about \$4 trillion in reported wages.

Ten percent of the W-2s received by SSA have invalid name and SSN combinations when they first come to us. In our initial processing, the computer system uses more than twenty automated routines to identify commonly occurring errors that, when corrected, enable the W-2 to be properly posted.

A number of these processing routines address discrepancies between the name reported on the W-2 and the name in SSA records. The reported SSN is screened for a variety of prescribed common mistakes, such as transposed digits, in an effort to obtain a match. Other, more complex, common problems cannot be corrected through these routines, and, in those cases, the earnings cannot be posted to a worker's account.

For TY 2003, using computer routines we were able to post more than half of all W-2s received with invalid name/SSN combinations to the correct SSN. The balance, 4.1 percent of total W-2s received for TY 2003, was initially recorded in the suspense file. As of October, 2005, approximately

8.8 million W-2s (3.5 percent of the total) representing \$57.8 billion in wages remained in the suspense file for TY 2003.

It is important to note that wages that remain in the ESF include wages paid to individuals who were not and may not be currently authorized to work in the U.S. Thus, these individuals have actually paid into the Social Security Trust Fund and are unable to receive benefits.

Subsequent processing reduces this amount further. SSA removes wage items from the suspense file on an ongoing basis and posts them to the correct worker's record. Reinstatements can occur when a worker provides evidence of missing wages after reviewing the Security Statement. Over time, the percentage of W-2s for a given year or period of years that remain in the suspense file declines as a result of this subsequent processing. As an illustration, only 2.3 percent of all wage items for 1995 remain in the suspense file.

I would like to address several misconceptions surrounding SSNs and the composition of the ESF. First is the notion that SSA has assigned the SSN 000-00-0000 to hundreds of thousands of workers. In reality, Social Security has never assigned a social security number consisting of all zeroes to any person. 000-00-0000 is not a valid SSN and Social Security does not verify an all zero SSN. Second, many people believe that the use of all zero SSNs is growing. Actually, wage reports with all zero SSNs have declined dramatically over the past 20 years. For example, for Tax Year 1984 Social Security has approximately one million reports with an all zero



SSN, remaining in the ESF, In contrast, for Tax Year 2003, Social Security has approximately 200,000 reports with an all zero SSN in the ESF. Finally, it has been widely reported that most of the wage items in Social Security's ESF can be attributed to work by illegal aliens. Social Security cannot determine the number of wage items in the ESF attributable to earnings of individuals not authorized to work in the United States. SSA's source of information about earnings is the Form W-2, and there is no citizenship or immigration status information on that document. While some percentage of name and SSN mismatches are attributable to unauthorized workers, such mismatches can occur for a variety of other reasons, including typographical errors, unreported name changes, and incomplete or blank SSNs.

### No-Match Letters

As I said earlier, SSA processes wages reported by employers on Forms W-2. We pass this information on to the Internal Revenue Service for income tax purposes, and we record the earnings to each worker's account so that they are considered in determining eligibility for benefits and the level of benefits to be paid. In certain instances when a Social Security number does not match that worker's name, SSA notifies employers of this situation through what is commonly called a 'no-match' letter. We send these letters to employers who submit more than 10 wage items when more than 0.5 percent of the items in a wage report consist of an SSN and name combination

does not match our records. The employer 'no-match' letters include a list of up to 500 SSNs submitted by the employer in wage items that SSA could not post to a worker's record. In 2005, we sent approximately 127,000 employers 'no-match' letters, which covered 7.3 million mismatched records. For privacy reasons, the letter lists only the SSNs, not the name/SSN combination.

The only source of information that SSA receives about a taxpayer's employer and earnings is from tax return information on the Form W-2. We receive and process this information as an agent for the Internal Revenue Service. Use of and disclosure of tax return information is governed by section 6103 of the Internal Revenue Code. SSA currently has the authority to use this information only for the purpose of determining eligibility for and the amount of Social Security benefits. The Administration supports allowing disclosure of this data in the interests of national security and for law enforcement purposes.

### **The Non Work Alien File**

Each year as required by Section 414 of the Illegal Immigration Reform and Immigrant Responsibility Act of 1996, P.L. 104-208, SSA reports to Congress the number W-2s received indicating earnings on an SSNs assigned to aliens who were not authorized to work in the United States when the card was issued. The most recent report stated that earnings were credited to 522,403 such SSNs. It is

important to note that since the work authorization status of a non-citizen may change, an earnings report under a nonwork SSN does not necessarily mean that unauthorized work was performed. It is also important to understand that, because the name and SSN on the report matches SSA's records, these earnings reports are not reflected in the ESF.

## **Conclusion**

In closing, let me say again that SSA strongly supports the President's comprehensive immigration reform approach and remains committed to ensuring that the American public's hard-earned wages are properly credited so that they will be able to receive all of the benefits to which they may be entitled.

Thank you for the opportunity to appear before you, and I will be pleased to answer any questions you may have.